

iQIYI (IQ US)

Margin surprise on higher efficiency

1Q24 beat on margin again, with adj. NP at RMB844mn (91% above consensus) and top line 1% above consensus. For 2Q24E, we expect IQ's revenue -1% YoY (in which subs revenue -5% YoY while ads +7% YoY), with a rich content pipeline ahead (e.g. *Fox Spirit Matchmaker* <狐妖小红娘>). We forecast 2Q24E non-GAAP OP resilient at RMB800mn, and we are positive on mgmt's FY24E OP target of RMB5bn. We keep our FY24-26E earnings forecasts unchanged, with DCF-based TP of US\$8.6 (16x FY24E P/E).

- **Margin surprise on higher efficiency.** IQ reported upbeat 1Q24 results, with revenue -5% YoY (1% above consensus) and adj.NP at RMB844mn, 91% ahead of consensus. Membership declined 13.5% YoY on high base (in line with consensus), and IQ did not disclose subs and ARM from 1Q24. Ads revenue grew 5.6% YoY (largely in line), boosted by performance-based ads. Adj. OPM reached 14%, exceeding our estimates by 3ppts, due to enhanced content strategy and operation efficiency (content costs -5% YoY). In 1Q24, operating cash flow reached RMB937.8mn.
- **More highly-anticipated content to come.** In 2Q24, IQ's *In the Name of Brother*, *City of the City*, *To the Wonder* and *Tell No One* gained traction, and we expect multiple key drama series to come ahead, including *Fox Spirit Matchmaker* <狐妖小红娘> and *Lost in the Shadows* <看不见影子的少年>. We forecast 2Q24E revenue -1% YoY, in which subs revenue -5% YoY while ads revenue +7% YoY. For ads services, performance-based ads revenue achieved double-digit YoY growth in 1Q24, and mgmt. anticipates the momentum to continue, benefiting from growing adoption of AIGC. Mgmt stated that brands ads should see recovering spending for traditional strong seasonality in 2Q24E, and ads demand from food & beverage, medical services and telecommunications industries should be resilient. Non-GAAP OP could reach RMB800mn in 2Q24E, in our estimates. In the long run, we are positive on mgmt's FY24E OP target of RMB5bn and confident on IQ's margin improvement trend, backed by ARM expansion, higher operation efficiency and AIGC integration.
- **Maintain BUY.** We keep our FY24-26E earnings forecasts unchanged, with DCF-based TP of US\$8.6. Key catalysts: 1) a rich pipeline to be released; 2) resilient earnings ahead; and 3) deleveraging measures to continue.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,998	31,873	34,663	37,706	39,960
YoY growth (%)	(5.1)	9.9	8.8	8.8	6.0
Adjusted net profit (RMB mn)	1,265.6	2,811.2	3,713.9	4,154.2	4,543.2
Diluted EPS (RMB)	1.50	3.18	3.85	4.28	4.66
YoY growth (%)	NA	122.1	32.1	11.9	9.4
Consensus EPS (RMB)	NA	NA	2.8	3.8	4.3
P/E (x)	28.2	13.2	11.0	9.9	9.1
P/S (x)	1.40	1.27	1.17	1.08	1.01
ROE (%)	(2.3)	22.9	25.1	21.4	18.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$8.60
Up/Downside	48.5%
Current Price	US\$5.79

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Stock Data

Mkt Cap (US\$ mn)	5,556.8
Avg 3 mths t/o (US\$ mn)	18.5
52w High/Low (US\$)	6.34/3.17
Total Issued Shares (mn)	426.8

Source: FactSet

Shareholding Structure

Baidu	46.1%
Xiaomi Ventures	5.1%

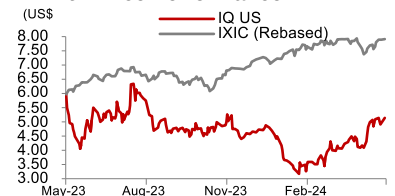
Source: Factset

Share Performance

	Absolute	Relative
1-mth	24.8%	23.1%
3-mth	46.9%	42.1%
6-mth	3.2%	-11.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1Q24 financial review

RMB mn	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY	Consensus	Diff %
Revenue	7,471	7,593	8,349	7,802	8,015	7,706	7,927	2.9%	-5.0%	7,846	1%
Operating profit	310	784	859	610	747	774	945	22.1%	10.0%	693	36%
Net profit	(396)	304	618	365	476	466	655	40.6%	6.0%	413	59%
Adj. net profit	187	856	940	595	622	682	844	23.8%	-10.1%	443	91%
EPS (RMB)	0.22	0.98	0.97	0.61	0.64	0.70	0.87	24.5%	-10.6%	0.53	63%
Margin (%)											
Gross margin	23.6%	28.9%	28.7%	26.0%	27.1%	28.2%	29.0%			27.5%	
Operating margin	4.1%	10.3%	10.3%	7.8%	9.3%	10.0%	11.9%			8.8%	
Adj. net margin	2.5%	11.3%	11.3%	7.6%	7.8%	8.9%	10.7%			5.6%	
Growth (%)											
Revenue (YoY)	-1.6%	2.8%	14.7%	17.2%	7.3%	1.5%	-5.0%			-6.0%	
Revenue (QoQ)	12.2%	1.6%	10.0%	-6.5%	2.7%	-3.9%	2.9%			1.8%	
Operating profit	NA	NA	819.2%	385.3%	141.1%	-1.3%	10.0%			-19.3%	
Adj. net profit	NA	NA	479.3%	659.9%	232.3%	-20.4%	-10.1%			-52.8%	

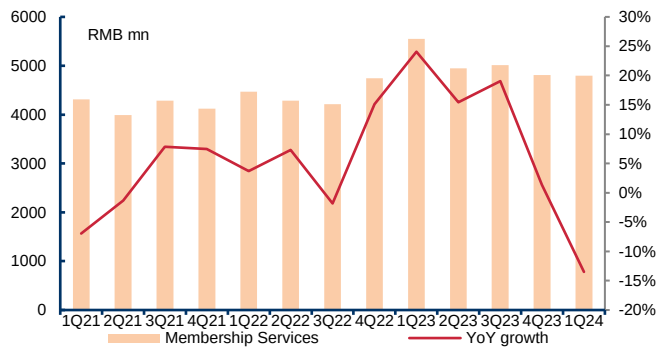
Source: Company data, Bloomberg

Figure 2: 1Q24 revenue breakdown

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Revenue (RMB mn)	7,471	7,593	8,349	7,802	8,015	7,706	7,927	2.9%	-5.0%
Membership Services	4,211	4,744	5,547	4,947	5,012	4,809	4,799	-0.2%	-13.5%
Online Advertising	1,247	1,553	1,404	1,495	1,674	1,651	1,482	-10.2%	5.6%
Content Distribution	730	635	727	553	526	506	928	83.4%	27.6%
Others	1,284	661	670	807	803	741	718	-3.1%	7.2%

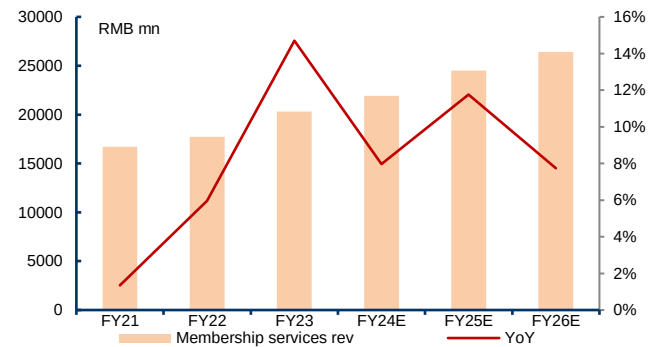
Source: Company data

Figure 3: Quarterly subs revenue



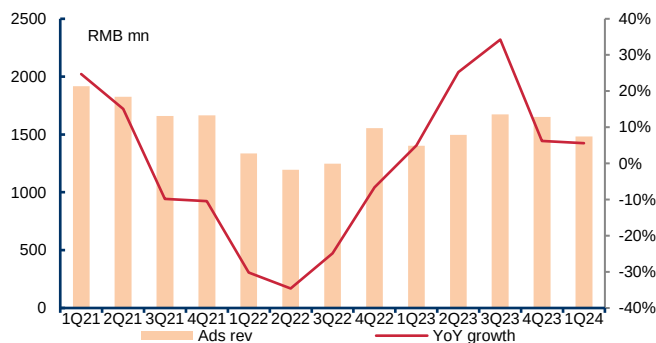
Source: Company data, CMBIGM

Figure 4: Yearly subs revenue estimates



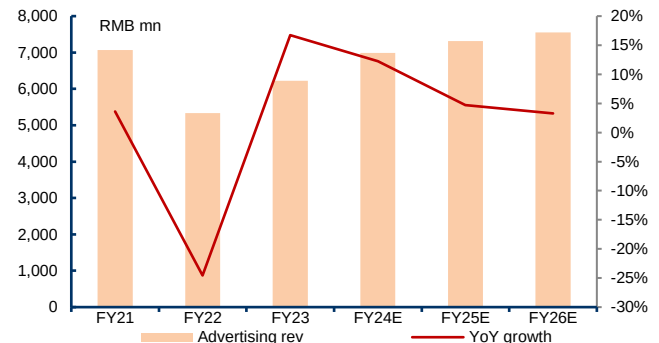
Source: Company data, CMBIGM estimates

Figure 5: iQIYI's quarterly ads revenue



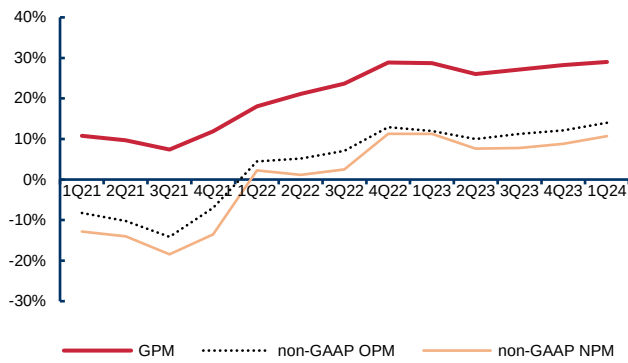
Source: Company data, CMBIGM

Figure 6: iQIYI's yearly ads revenue estimates



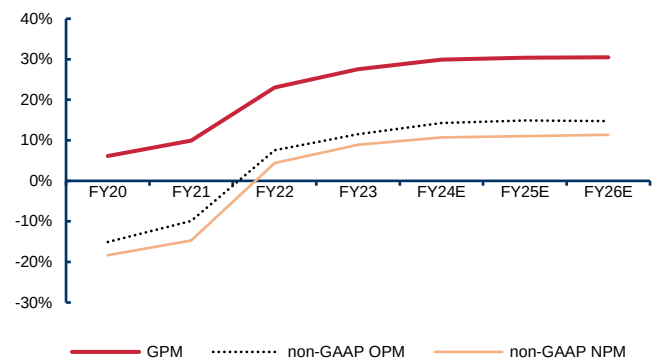
Source: Company data, CMBIGM estimates

Figure 7: iQIYI's quarterly margin



Source: Company data, CMBIGM

Figure 8: iQIYI's yearly margin estimates



Source: Company data, CMBIGM estimates

Figure 9: DCF valuation

DCF valuation (RMB mn)

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	4,961	5,618	5,883	7,016	8,042	9,072	9,947	10,892	11,873	12,941
Tax	(362)	(613)	(546)	(693)	(840)	(987)	(1,110)	(1,089)	(1,187)	(1,294)
D&A	13,947	15,054	16,341	17,157	17,680	18,214	18,753	19,690	20,675	21,709
Working capital	(14,185)	(15,094)	(16,383)	(17,365)	(17,902)	(18,387)	(18,951)	(19,899)	(20,894)	(21,938)
CAPEX	(936)	(1,067)	(1,115)	(1,151)	(1,163)	(1,165)	(1,173)	(1,231)	(1,280)	(1,332)
FCF	3,425	3,897	4,179	4,963	5,817	6,746	7,467	8,364	9,186	10,086
FCF Growth		14%	7%	19%	17%	16%	11%	12%	10%	10%
Terminal Value										108,034
PV (FCF+ Terminal Value)	3,041	3,073	2,926	3,086	3,212	3,307	3,250	3,233	3,153	36,002

Assumptions

WACC	12.6%
Tax rate	15.0%
Risk free rate	3.6%
Beta	1.10
Market risk return	11.8%
Terminal growth rate	3.0%

Equity Value

PV	64,283
minus: Net cash	6,002
minus: Minority Interest	0
Equity Value	58,281
Shares (mn)	947
Target Price (US\$) based on DCF	8.6

Source: CMBIGM estimates

WACC		11%	12%	13%	14%	15%
Growth	1.5%	9.7	8.5	7.8	6.7	6.0
	2.0%	10.0	8.7	8.1	6.8	6.1
	2.5%	10.4	9.0	8.3	7.0	6.2
	3.0%	10.8	9.3	8.6	7.2	6.4
	3.5%	11.3	9.7	8.8	7.4	6.5
	4.0%	11.9	10.1	9.2	7.6	6.7
	4.5%	12.5	10.5	9.5	7.8	6.9

Figure 10: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	34,663	37,706	39,960	34,122	36,492	38,947	1.6%	3.3%	2.6%
Gross profit	10,357	11,451	12,183	10,109	11,136	12,150	2.4%	2.8%	0.3%
Operating profit	4,301	4,902	5,124	4,192	4,897	5,605	2.6%	0.1%	-8.6%
Adj. net profit	3,714	4,154	4,543	3,282	3,981	4,617	13.2%	4.4%	-1.6%
EPS (RMB)	3.85	4.28	4.66	2.84	3.75	4.26	35.6%	14.2%	9.3%
Gross margin	29.9%	30.4%	30.5%	29.6%	30.5%	31.2%	+0.3ppts	-0.1ppts	-0.7ppts
Operating margin	12.4%	13.0%	12.8%	12.3%	13.4%	14.4%	+0.1ppts	-0.4ppts	-1.6ppts
Net margin	10.7%	11.0%	11.4%	9.6%	10.9%	11.9%	+1.1ppts	+0.1ppts	-0.5ppts

Source: Bloomberg, CMBIGM estimates

Key Investment Risks

Key investment risks: 1) key content launch delays; 2) regulatory uncertainty; 3) slower-than-expected ads recovery due to macro uncertainty; and 4) competition from short-form video (SFV).

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	30,554	28,998	31,873	34,663	37,706	39,960
Cost of goods sold	(27,513)	(22,319)	(23,102)	(24,307)	(26,255)	(27,778)
Gross profit	3,041	6,678	8,770	10,357	11,451	12,183
Operating expenses	(7,520)	(5,366)	(5,781)	(6,055)	(6,549)	(7,058)
SG&A expense	(4,725)	(3,467)	(4,014)	(4,244)	(4,602)	(5,034)
R&D expense	(2,795)	(1,899)	(1,767)	(1,811)	(1,947)	(2,024)
Operating profit	(3,027)	2,181	3,660	4,961	5,618	5,883
Interest income	119	70	257	65	67	80
Interest expense	(1,350)	(715)	(1,130)	(914)	(880)	(834)
Foreign exchange gain/loss	55	(168)	(105)	0	0	0
Other income/expense	90	(319)	73	0	0	0
Pre-tax profit	(6,012)	(34)	2,033	3,452	4,089	4,370
Income tax	(97)	(84)	(80)	(362)	(613)	(546)
Minority interest	61	18	27	0	0	0
Net profit	(6,170)	(136)	1,925	3,090	3,476	3,824
Adjusted net profit	(4,549)	1,266	2,811	3,714	4,154	4,543

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,524	13,786	21,161	23,589	26,609	29,492
Cash & equivalents	2,997	7,098	13,186	15,258	17,883	20,510
Restricted cash	78	14	14	14	14	14
Account receivables	2,748	2,403	2,997	3,212	3,443	3,594
Prepayment	3,267	2,603	3,154	3,229	3,313	3,342
Financial assets at FVTPL	1,348	818	818	818	818	818
Other current assets	1,087	850	991	1,058	1,139	1,216
Non-current assets	30,948	32,263	29,431	31,245	33,322	35,250
PP&E	1,345	1,105	1,838	2,082	2,315	2,424
Deferred income tax	31	0	0	0	0	0
Investment in JVs & assos	3,035	2,454	2,454	2,454	2,454	2,454
Intangibles	7,803	7,277	7,544	8,132	8,902	9,647
Goodwill	3,888	3,826	3,826	3,826	3,826	3,826
Other non-current assets	14,845	17,601	13,769	14,751	15,825	16,899
Total assets	42,472	46,048	50,592	54,834	59,931	64,743
Current liabilities	22,476	28,130	29,631	30,159	31,102	31,371
Short-term borrowings	4,118	3,348	4,687	4,218	3,796	3,037
Account payables	8,896	5,993	7,533	7,926	8,489	8,906
Other current liabilities	6,290	16,163	14,592	15,049	15,612	16,038
Accrued expenses	3,172	2,626	2,819	2,966	3,204	3,390
Non-current liabilities	14,323	11,575	11,575	11,575	11,575	11,575
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	12,652	9,568	9,568	9,568	9,568	9,568
Other non-current liabilities	1,670	2,007	2,007	2,007	2,007	2,007
Total liabilities	36,799	39,705	41,206	41,734	42,676	42,945
Share capital	0	0	0	0	0	0
Capital surplus	49,642	50,886	52,971	53,595	54,274	54,993
Retained earnings	(47,164)	(46,499)	(45,329)	(42,239)	(38,764)	(34,940)
Other reserves	2,709	1,863	2,709	2,709	2,709	2,709
Total shareholders equity	5,276	6,343	10,444	14,158	18,312	22,856
Total equity and liabilities	42,472	46,048	51,650	55,892	60,989	65,801

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,012)	(34)	2,033	3,452	4,089	4,370
Depreciation & amortization	16,766	16,475	13,327	13,947	15,054	16,341
Change in working capital	(17,586)	(18,346)	(10,274)	(14,185)	(15,094)	(16,383)
Others	819	1,834	530	262	65	173
Net cash from operations	(6,013)	(71)	5,614	3,476	4,114	4,501
Investing						
Capital expenditure	(262)	(638)	(669)	(693)	(747)	(775)
Acquisition of subsidiaries/ investments	(386)	582	0	0	0	0
Net proceeds from disposal of short-term investments	(11,456)	0	0	0	0	0
Others	13,367	322	(223)	(243)	(320)	(340)
Net cash from investing	1,262	266	(892)	(936)	(1,067)	(1,115)
Financing						
Net borrowings	259	(240)	1,339	(469)	(422)	(759)
Proceeds from share issues	268	0	0	0	0	0
Others	(3,487)	4,709	27	0	0	0
Net cash from financing	(2,959)	4,469	1,366	(469)	(422)	(759)
Net change in cash						
Cash at the beginning of the year	10,941	3,075	7,112	13,200	15,271	17,897
Exchange difference	(217)	0	0	0	0	0
Cash at the end of the year	3,075	7,112	13,200	15,271	17,897	20,523
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	2.9%	(5.1%)	9.9%	8.8%	8.8%	6.0%
Gross profit	66.8%	119.6%	31.3%	18.1%	10.6%	6.4%
Operating profit	na	na	67.8%	35.5%	13.2%	4.7%
Net profit	na	na	na	60.5%	12.5%	10.0%
Adj. net profit	na	na	122.1%	32.1%	11.9%	9.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	10.0%	23.0%	27.5%	29.9%	30.4%	30.5%
Operating margin	(9.9%)	7.5%	11.5%	14.3%	14.9%	14.7%
Adj. net profit margin	(14.9%)	4.4%	8.8%	10.7%	11.0%	11.4%
Return on equity (ROE)	(84.4%)	(2.3%)	22.9%	25.1%	21.4%	18.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	3.5	1.6	0.6	0.2	0.0	(0.1)
Current ratio (x)	0.5	0.5	0.7	0.8	0.9	0.9
Receivable turnover days	36.4	34.7	33.0	32.7	32.2	32.1
Payable turnover days	109.2	132.8	117.5	116.1	114.1	114.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (diluted)	ns	28.2	13.2	11.0	9.9	9.1
P/B	5.6	5.0	3.2	2.5	2.0	1.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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